Financial Accounting Standards Board
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EDMUND L. JENKINS
Chairman

December 29, 1999

The Honorable James M. Jeffords
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Thank you for your letter of December 10, 1999, regarding "hybrid and other cash balance pension plans."

As your letter notes, generally accepted accounting principles ("GAAP"), particularly Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions* ("FAS 87"), require employers to provide a significant amount of information about pension assets and liabilities in GAAP financial reports. The intent of FAS 87 was to provide readers of financial reports with more understandable and comparable information about the extent of a company's obligation for pension benefits already earned by employees, and the assets set aside to fund those obligations. That information was intended to enable the readers, including investors and creditors, as well as employees and regulators, to assess the effect of the pension plans on the weakness or strength of the company's finances.

We have seen much of the press coverage of the "cash balance pension plan" issue. We understand that some employers are modifying their plans to calculate benefits in a different way and that the transition to the new arrangement raises issues, including public policy issues. We note that the participants in the public debate on those issues are using the information provided in the financial reports as a result of FAS 87. In our view, that is an appropriate use of the information. We believe that relevant, reliable, unbiased, and comparable information presented on a consistent basis is an important contributor to good decisions by company managers, investors, creditors, regulators, and Congress.

The penultimate paragraph of your letter makes reference to "misrepresentations" and raises the question of whether the Financial Accounting Standards Board ("FASB") could or should take some action to counter a perceived accounting problem. We are not currently aware of any significant evidence that the information about pension plans provided in financial reports is misrepresenting, as opposed to presenting, the facts. As a result, we have not yet seen in the policy debate indications that there is a problem with the existing accounting standards.

The role of financial reporting is to provide relevant, reliable, unbiased, and comparable information about a company's resources (assets) and obligations (liabilities) and how they change over time. Company managers must make significant decisions about how to compensate employees. Those decisions include decisions about the structure and financing of pension arrangements. Some companies offer no such benefits. Others may offer defined contribution plans. Companies that offer defined benefit plans may offer a variety of traditional or nontraditional plan designs, some of which may provide for more generous benefits than others. Some plans are very well funded; others are less so. Financial reporting seeks only to report those facts, not to judge them or to influence the decisions of company managers, investors, creditors, regulators, or Congress toward any particular arrangement.

Sometimes for various reasons plans are amended and benefits are changed. When the benefits are changed, the new obligation created may be greater than or less than the obligation under the old benefit formula. Financial reporting seeks to present that difference. Also, the cost of the plan going forward will be different and may be higher or lower. A company that offers (or changes to) a less generous benefit (or no plan at all) will appropriately report lower pension cost and higher earnings than an otherwise similar company with a more generous benefit. Financial reports should present those differences, and to do so is not misrepresentation. Indeed, it would be misrepresentation in our view to not report the effects of benefit changes.

I would be happy to meet with you in person, at your convenience, to further discuss in more detail these issues and the role of the FASB. I have also asked our Washington, DC representative, Jeff Mahoney, to contact your staff to provide you with a resource for any additional information.

Thank you again for your letter and for your interest in the FASB and financial accounting and reporting.

Sincerely,

Edmund Jenkins